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**FISCAL IMPACT STATEMENT**

**LS 7754**

**BILL NUMBER:** SB 609

**NOTE PREPARED:** Mar 1, 2005

**BILL AMENDED:** Feb 28, 2005

**SUBJECT:** County Income Tax Distributions.

**FIRST AUTHOR:** Sen. Kenley

**FIRST SPONSOR:** Rep. Espich

**BILL STATUS:** As Passed Senate

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) (Distribution Base) This bill distributes County Adjusted Gross Income Tax (CAGIT) revenue to civil taxing units and school corporations and County Option Income Tax (COIT) revenue to civil taxing units according to a formula that (1) excludes the portion of property taxes used to pay debt issued after June 30, 2005, and (2) includes the previous year's local income tax distribution.

(Distribution Adjustment) The bill provides that the Department of State Revenue (Department) shall make adjustments to increase a county's certified distribution of CAGIT, COIT, or County Economic Development Income Tax (CEDIT) revenue when a county increases the tax rate, in the same manner required when the county initially imposes the tax.

**Effective Date:** Upon passage; July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** (Distribution Adjustment) *Summary:* Under current law, when a county adopts a local option income tax (LOIT), the Department of State Revenue makes a distribution in the immediate year. The State Budget Agency must project a six-month balance in order to generate a recommendation on the certification for the newly adopting county. The bill would require the Budget Agency to make projections for counties with a LOIT that raise their rates, so that the Department would be able to adjust their certified distribution in the immediately following year for the rate increase. Under current law, a rate increase takes two years to reflect in a county's certified distribution. Certified distributions would begin to be affected, under the bill, in CY 2006. Differences in projections over the actual collections in a county that increased its tax rate would be temporarily made up by the state General Fund and would be repaid with future LOIT collections.

The provision would increase the administrative time necessary for the Budget Agency and the Department to project and certify new distributions for counties increasing their LOIT rates.

### **Explanation of State Revenues:**

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) (Distribution Base) *Summary:* Under current law, CAGIT and COIT certified shares, and CAGIT property tax replacement credits (LPTRC) are distributed to qualifying taxing units, proportioned on the basis of property tax levies. The bill would change the distribution base by:

- 1) Adding to the unit's current levy base, the unit's share of LPTRC or certified shares received in the previous year; and
- 2) Subtracting from the unit's base, the property tax levy imposed to pay for debt incurred, or leases entered into, after June 30, 2005.

This provision does not affect CEDIT distributions.

Under the bill, civil taxing units that receive CAGIT or COIT certified shares could realize either a decline or increase in shares in the implementation year and in future years. The impact to the unit revenue would depend on the unit's proportion of the new total distribution base (levies less new debt levies plus certified shares or LPTRC) in a county as opposed to the unit's proportion of the total levies in the county (current distribution method). There are three considerations to the impact for each unit.

First, if the units' proportions of the total qualified levy in a county change from year to year, the addition of the previous year's shares will change the apportionment. The allocation of shares in a year is currently based on that unit's charged or abstract levy in the previous year. For example, to determine the base for 2006 shares under the bill, the 2005 shares (based on 2004 levy proportions) are added to the 2005 levies.

Second, the levies for new debt levies and leases (incurred after June 30, 2005) would not be part of the new base.

Third, as existing debt issues or leases are paid off, the levy for that purpose would be removed from the taxing unit's distribution base. This would have a direct bearing over time on the portion of CAGIT and COIT proceeds that the unit receives under this new distribution formula. Units that currently have high debt levels would find declining CAGIT and COIT shares over time while those units with low debt levels would see increased share amounts.

Both civil taxing units and schools receive CAGIT LPTRC. While the amount of LPTRC distributed to each unit would change under this bill, the loss or gain of LPTRC would not affect a unit's overall revenue. A loss of LPTRC would increase a unit's gross levy while a gain of LPTRC would reduce the levy.

The bill does not change the county aggregate amount of certified shares or LPTRC shares.

The total distributive shares in CY 2003 are displayed in the following table:

LOIT Share Type	Total Distribution CY 2003
CAGIT PTRC	\$ 82.2 M
CAGIT SHARES	\$234.5 M
COIT SHARES	\$409.8 M
CEDIT SHARES	\$146.0 M

The above distributions are net of LOIT revenue used for county jails, homestead credits, and certain other projects allowed under current law.

**State Agencies Affected:** Department of State Revenue; State Budget Agency.

**Local Agencies Affected:** All civil taxing units and school corporations (CAGIT LPTRC only) within a county that imposes a local option income tax.

**Information Sources:** Local Government Database.

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